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The Practicing

CPA

THE NEWSLETTER OF THE AICPA ALLIANCE FOR CPA FIRMS



www.pcps.org

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Selecting Human Resources Outsourcers

As new business trends develop, CPA firms must keep pace in order to give clients ethical advice and responsible referrals. This article discusses the significance of integrated human resource service providers to your firm and your clients and offers practical advice on selecting a provider that you can trust, and that will profit your clients.

Here's how it starts. A client asks for your advice, or perhaps even a referral, for a third-party payroll services provider. Before you drop the name of a well-known administrative services provider, consider for a moment the many advantages of an integrated human resources service provider. They are known as human resources outsourcers (HROs), or sometimes professional employer organizations (PEOs), but regardless of what you call them, you've probably considered calling one.

Why? More often than not, the answers will be *more* and *less* as in less liability, fewer fees, and fewer benefit hikes versus more choices, more available time, greater competitiveness, and greater overall value. The outsourcing boom that began over a decade ago has become increasingly more apparent—growing some 25 percent yearly—and desirable, especially with smaller companies that now can compete with large corporations in providing benefits options and containing costs.

More choices and lower costs

According to Mercer Consulting, healthcare costs are expected to increase 15 percent in 2004. To stay afloat,

many companies are either slashing coverage options or passing increases on to their employees. Neither of these approaches supports a company's goal of attracting and retaining qualified, high-performing personnel. To remain competitive, fiscally and otherwise, more and more companies are discovering an emerging solution, namely, outsourced benefits. Certain third-party providers can leverage their cumulative roster of participants in order to qualify for substantially lower rates. According to *National Public Accountant* (May 2003), "PEOs offer employees more and better benefits than they would receive from a small business...[and] due to economies of scale, can offer these benefits at attractive prices." San Leandro-based TriNet Group, my employer, for example, recently announced it had contained healthcare rate hikes to 9.15 percent—easily half the national average—while adding to its coverage options.

Reducing risk, for you and your client

According to the Small Business Administration, business owners spend up to 25 percent of their time on employee-related paperwork.

Additionally, smaller companies are less likely to have a dedicated human resources specialist. Now add in 401(k)s, the ADA, FLMA, and COBRA, and you may have the recipe for a compliance disaster. Of course, many payroll service companies claim they offer built-in compliance. But suppose your firm misses a deadline? Suppose an employee's benefits are interrupted and a lawsuit ensues that targets both your firm and your client? One of the single greatest advantages of a PEO-style benefits provider is the limitation on liability; only a PEO will contractually assume most if not all liabilities related to the services they provide. Make sure they do.

By Lyle DeWitt, CPA

Staying competitive applies to you, too

The advantages of contracting a third-party, integrated human resources services provider can go far beyond the time and money saved by automating payroll, leveraging group benefits, and handing off liabilities. Other returns can include increased satisfaction and retention, for both employees and employers—your customers.

"The only way you can attract and retain exceptional employees is to invest properly in your human capital," Milan P. Yager,

Who uses PEOs?

According to the National Association of Professional Employer Organizations (NAPEO), PEO clients include many different types of businesses ranging from accounting firms to high-tech companies and small manufacturers. In addition, many different types of professionals, including doctors, retailers, mechanics, engineers and plumbers, also benefit from PEO services. The average client of NAPEO's member PEOs is a small business with 16 worksite employees. NAPEO claims also that increasingly, larger businesses are finding value in a PEO arrangement. The reasons include the robustness of their Web-based HR technologies and their expertise in HR management.

For these businesses, PEOs assume much of the burdensome responsibility of complying with laws and regulation related to employment policies and practices. The U.S. Small Business Administration (SBA) reports that between 1980 and 2000, the number of employment-related laws and regulations grew by about 60 percent. Consequently, small- and mid-sized-business owners now spend up to a quarter of their time on employment-related paperwork.

Finding a PEO

The Directory of PEO Companies in the USA (www.peo-directory.com) provides links to PEOs throughout the U.S. In addition, at no cost, your firm or client can receive fee quotes from multiple PEOs by filling out a brief form.

executive vice president of the National Association of Professional Employer Organizations, said recently. That means adding benefits and coverage options, not subtracting them. And

the only way for many small and mid-size firms to do so, it would seem, is through a third-party provider. But not all providers provide equally.

Do your due diligence

Tremendous care must be taken to select a provider that is what it seems. The AICPA, CBA, Internal Revenue Service, and others offer some guidelines, but most address confidentiality and privacy laws. What to do?

Some resources to refer to include the National Association of Professional Employer Organizations (NAPEO) Web site as well as www.PEO-Directory.com. In the meantime, here are some suggestions to keep in mind:

- *Get client and professional references.* Dig deep. Check with the HRO's essential vendors. For example, confirm insurance coverage, and ask whether the policy is new or has been renewed. Ask the HRO for references from inside its carriers, and find out how its insurance carriers are rated by A.M. Best or other insurance rating organizations. Also, ask for customer references, from both current customers and those who terminated their service, and find out why former customers terminated their service. A Google search on the HRO will tell you about anything negative (past fines, pending litigation, and the like).
- *Check to see whether the HRO is a member of the NAPEO and is accredited by the Employer Services Assurance Corporation (ESAC).*
- *Check on the provider's financial standing (bank and credit references).*
- *Understand how the employee benefits are funded and insured.* If a workers' compensation or other benefit plan is underfunded or not fully insured, the entire cost of a claim may fall on you or your client, not the PEO. Get a guarantee of the various plans' funding in writing and ask for back-up documentation.
- *Make sure the employee risk pool matches your client's profile.* A PEO with a homogeneous customer base won't put your firm or your client's at risk by pitting it against other businesses with higher benefits usage or medical claims costs, sending rates skyrocketing later. Compare the HRO's average salary base and overall occupational makeup to that of your or your client's firm. Are they close? A low-risk customer in a largely high-risk PEO environment may not get the benefits or services that they expect.
- *Confirm that participating employees will receive first-day coverage.* Good PEOs offer this. A waiting period for employee benefits weakens a firm's recruiting position during competitive hiring cycles. Also, make sure there is no exclusionary language pertaining to preexisting conditions or any need for individual

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underwriting. If assumed coverage is not provided, your firm or your client may be caught in an embarrassing—and potentially costly—situation. Remember the two phrases *guaranteed issue* and *you get what you pay for*.

- *Find out whether compliance liabilities can be assumed contractually in your state.* A careful reading of the PEO's contract is mandatory. Understand exactly which risks are and are not transferred or shared. Some risks can be completely transferred over to the PEO, including payroll timeliness and accuracy; employment taxes, filings, and compliance; health plan compliance and filings; health plan remittances; HIPAA compliance; and COBRA compliance. For those, the PEO can and should hold the customer harmless. Only other risks, such as human resources and employment litigation risks, can be shared—and the contract should make this clear. The courts and administrative agencies have established some clear guide-

lines about risk transfer.

Parting wisdom and caveats

Since it will be your counsel and advice that will help your client realize the advantages of an integrated human resources provider, your own stock should rise appreciably—if everything goes as planned. Of course, the reverse is just as true. Remember to demonstrate great care and diligence in reviewing and referring any third-party provider, particularly in the area of human resources.

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COSO Releases “Enterprise Risk Management—Integrated Framework”

A principles-based framework for managements and boards to manage risks to objectives comprehensively

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has announced the release of the *Enterprise Risk Management—Integrated Framework*. The Framework describes the essential components, principles, and concepts of enterprise risk management for all organizations, regardless of size.

The AICPA has key resources for members available, in the AICPA store at www.cpa2biz.com or by phone at 1-888-777-7077, including:

- *COSO Enterprise Risk Management—Integrated Framework*, available as a two-volume paperback and electronic (PDF) versions (Product No.990015)
- *Internal Control Reporting for Public Companies (CD-Rom)*, a CPE self-study course, based on a recent AICPA Web cast (Product No. 737132HS)

“With heightened concern and focus on risk management,” COSO announced, “the Framework provides boards of directors and managements a clear roadmap for identifying risks, avoiding pitfalls, and seizing opportunities to grow stakeholder value.”

COSO recognizes that many organizations may be engaging in some aspects of enterprise risk management. No common base of knowledge and principles exists, however, to enable boards and senior management to evaluate an organization's approach to risk management and assist them in building effective programs to identify, measure, prioritize, and respond to risks. With this publication, businesses as well as other organizations have, for the first time, a principles-based framework to identify all aspects that should be present in every company's enterprise risk program and ways to implement them successfully.

The Framework addresses many issues currently faced by organizations, such as how to determine the right amount of risk, given the value an organization is striving to create for stakeholders, and the response to risk that will best protect and enhance value. It also addresses the role of the board of directors, senior management, and other corporate officers in enterprise risk management. An accompanying document, *Application Techniques*, illustrates how effective enterprise risk management concepts and principles may be successfully applied in the competitive business environment.

“This Framework could not be completed at a more appropriate time,” said John J. Flaherty, chairman of COSO. “Organizations worldwide now recognize the linkage between corporate governance, enterprise risk management, and entity performance. Many seek to improve processes for identifying, analyzing, and managing risks. Yet, until now, there hasn't been a comprehensive framework that truly met the far-reaching demands of the new regulatory and competitive environment. Successfully managing risk drives better business performance and facilitates achievement of strategic, operations, reporting, and compliance objectives.”

Built on the foundation of COSO's *Internal Control—Integrated Framework*, being used by many American businesses to comply with the Sarbanes-Oxley Act requirements, this new Framework is expected to be widely accepted as the benchmark for addressing business risk, COSO said.

COSO engaged PricewaterhouseCoopers in 2001 to lead the development of *Enterprise Risk Management—Integrated Framework*, after concluding there was a need for a broadly recognized enterprise risk management framework. COSO appointed an advisory council with members from the five COSO organizations and chaired by Tony Maki, a partner with Moss Adams, to work with PricewaterhouseCoopers in the development of the framework.

Because of the importance of the project, the Framework was exposed for public comment before final publication.

COSO is a voluntary, private-sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. The members of COSO are the American Institute of Certified Public Accountants, the American Accounting Association, Financial Executives International, the Institute of Management Accountants, and The Institute of Internal Auditors. COSO was originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, known as the Treadway

Commission, an independent private-sector initiative which studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors, for the Securities and Exchange Commission and other regulators, and for educational institutions. COSO then published *Internal Control—Integrated Framework*, also authored by PricewaterhouseCoopers. Other COSO studies include *Internal Control Issues in Derivatives Usage* and *Fraudulent Financial Reporting, 1987-1997—An Analysis of U.S. Public Companies*.

Powerful Audit Software at a Fraction of Normal Prices

Current auditing standards necessitate that auditors use software programs. Up until recently, the audit software programs have been too expensive and difficult to implement for many small CPA firms and sole practitioners. The following article describes a much less expensive tool that these firms may find will effectively meet their needs, but at a much lower price. The author provides examples for testing the software during a trial period.

During the last 20 years, the ability to use computers to analyze and manipulate large amounts of information has become critical to a number of audit and accounting functions. Current audit standards, that is, Statement on Auditing Standards (SAS) No. 80, *Amendment to Statement on Auditing Standards No. 31*, Evidential Matter (AICPA, *Professional Standards*, vol. 1, AU sec. 326); No. 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 319), and No. 99, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316), acknowledge that, "It may be difficult or impossible for the auditor to access certain information for inspection, inquiry, or confirmation without using information technology." This fact led to the development of several powerful software products known generically as Computer Aided Audit Techniques (CAAT) software. These software programs provide accountants and auditors with powerful tools to analyze large sets of data. Most of these off-the-shelf packages, however, can be expensive to implement effectively, the costs ranging into the thousands.

ActiveData for Excel™

A new product, ActiveData for Excel, from InformationActive Inc., brings CAAT functionality into the Excel environment (at an

introductory price of \$149 per license). The ActiveData for Excel add-in provides sophisticated data analysis and manipulation tools that enable users to stratify, summarize, age, identify gaps, and run Benford's Law, to name just a few of its features. Users can also join or relate files (for example, vendor address to employee address information), which was generally possible only in more advanced products such as Microsoft Access. Please note that, for ease of use, all of the ActiveData for Excel functions are available via a menu bar that already exists in Excel.

ActiveData for Excel then goes beyond CAAT tools in that it enables users to better perform a number of standard spreadsheet and data manipulation tasks, thus greatly expanding the functionality and usability of Excel. The Add-In enables users to navigate, merge, split, sort, and rearrange their data in order to perform a number of tasks. Users also can manipulate the data to tag, move, arrange, and split rows and columns, a very handy tool for managing the information within a spreadsheet.

Leaving your comfort zone

It is often noted that some accountants and auditors have a "comfort zone" with spreadsheets that inhibits their trying to learn other audit and data-analysis-related software tools. Now they may not have to learn a new technology to undertake many of the tasks that, until recently, could be accomplished only by using stand-alone, single-purpose audit software applications.

The significant difference between ActiveData for Excel and other off-the-shelf audit software is that Excel is limited by 65,536 records. Although many users may never get data files that large, InformationActive Inc. is developing new tools and applications that will overcome this row-limit barrier in their next releases, scheduled for the second quarter of 2005.

Find out for yourself

You can download a free 30-day fully functional license to ActiveData for Excel from <http://www.informationactive.com/ad/?aid=200>. Once downloaded and installed (takes about a one minute to install), you can see how easy it is to implement as an

By Richard B. Lanza, CPA, CFE, PMP

audit tool by going through the steps illustrated in the following two examples.

Finding duplicates

Duplicate invoice sales normally represent errors that computer systems were unable to detect. Duplicates can also be a sign of fraudulent efforts to inflate the company's sales figures. Most systems provide a check as to whether the customer number, invoice number, and amount are the same. The following test could be run to ensure that this basic input control is operational and also to test for other permutations of duplication:

- **Step One.** From the **ActiveData Menu**, select **Workbook—Open ActiveData Sample Workbook**. Then select the **Invoices** tab to open the invoice information.
- **Step Two.** From the **ActiveData Menu**, select **Analysis—Duplicates**.
- **Step Three.** To test for the same customer, invoice number, and amount, in the **Columns To Analyze** portion of the dialog box, select the fields of *Customer Number*, *Invoice Number*, and *Amount*. Then select **Extract Duplicates**. Click on the **Finished** button to have ActiveData for Excel build an additional worksheet with duplicate records.
- **Step Four.** Continue by looking for duplicate invoices with a *Same, Same, Different Test*. This test will look for the same invoice date and amount but a different customer. In this case, first go to the **Invoices** tab as in the above test and then, from the **ActiveData Menu** select **Analysis—Duplicates**.
- **Step Five.** In the **Columns To Analyze** portion of the dialog box, select the fields *Date*, *Amount*, and *Customer Number*. Make sure that *Customer Number* is the last field selected and is, therefore, on the bottom left of the dialog box. Then check off the **Same, Same, Different Test** radio box. Click on the **Finished** button to have ActiveData for Excel build an addi-

tional worksheet with duplicate records in which the invoice date and amount are the same, yet a different customer is invoiced.

Summarizing Information Quickly

Going back to the **Invoices** tab, you can summarize information within a spreadsheet in just a few clicks. Simply select **Analysis—Group Summary** from the **ActiveData Menu**. Then select, *SalesPerson* and *Customer Number* as the **Group by** and **Then by** fields, respectively. Click on the *Quantity* and *Amount* radio boxes in the **Columns to Total** section of the dialog box. Then, click the **Finished** button to get a summary by salesperson and customer of the quantity and dollar sales. This could be used as a trend analysis to identify high-selling salespeople who should be given further scrutiny for potential sales inflation.

Lower costs, easier training

With the proliferation of information technology, the use of audit software is becoming unavoidable. Up to now, products could be expensive and difficult to implement. Now, products entering the marketplace, such as ActiveData for Excel, seemingly pack all the punch of off-the-shelf audit software without the price. Also, since it is an Excel product, it is that much easier to train staff in using the tool.

Rich Lanza is an audit software specialist and founder of a new, independent audit software guidance Web site, www.auditsoftware.net. He has worked as an IT internal auditor at Toys R US and previously played a leadership role in the Program Management Office of the AICPA. He now provides practical advice on how to stretch assurance dollars, using carefully selected audit and assurance software products ranging from simple Excel and data-mining tools up to the most advanced enterprise risk and assurance solutions.

Practice Alert Issued on Illegal Acts

The Professional Issues Task Force has issued Practice Alert 2004-1, *Illegal Acts*. The purpose of the practice aid is to provide auditors of nonissuers and their firms with guidance regarding the extent of the consideration an independent auditor should give to the possibility of illegal acts by a client in an audit of financial statements in accordance with generally accepted auditing standards. The alert provides guidance in the following areas:

- The auditor's responsibility for detection of illegal acts having a direct and material effect on the financial statements
- The auditor's responsibility for detection of illegal acts having an indirect effect on the financial statements
- Audit procedures in the absence of specific information indicating the existence of possible illegal acts
- Action on discovery of possible illegal acts
- Disclosure of illegal acts to third parties
- Reporting considerations
- Documentation

The Professional Issues Task Force encourages practitioners and AICPA member firms to incorporate the guidance contained in the alert as soon as practicable. The alert is currently available on the AICPA's Web site at:

www.aicpa.org/download/auditstd/pract_alert/pa_2004_1.pdf.

Letters to the Editor

The Practicing CPA encourages readers to write letters on practice management and on published articles. Please remember to include your name and telephone and fax numbers. Send your letters by e-mail to pcpa@aicpa.org.

What to Look for in a Marketer

Many CPA firms employ marketers to help develop business. Many such arrangements are successful. Some are not. Melinda Guillemette, a marketing consultant to professional services firms, based in Corrales, New Mexico, offers some guidance that can give your firm insight into why these relationships are productive or not. Her guidance can also help you to recruit the right marketing staff. Firms that feel they're too small to afford a marketer can use this guidance to help select a marketing consultant.

By Melinda Guillemette

Accounting firms continue to work hard to find the right path for full-time, in-house marketers. Each firm's marketing needs are different. Some may want a marketing powerhouse; others may be fine with a high-level administrative type. The trick is knowing what you need before you begin the search—and certainly before you extend an offer.

Although the skill requirements vary from firm to firm, all firms should look for three characteristics when hiring a marketer at any level:

- *Self-confidence.* Without it, your marketing person will be

unable to inspire confidence in your professionals to help them achieve their business development goals.

- *Optimism.* Being an in-house marketer is a very tough job. Be sure your prospective hire demonstrates an innate optimism and intestinal fortitude.
- *Empathy.* I know technically outstanding marketers who can create strategies in their sleep, manage databases with one finger, and develop award-winning ad campaigns on a lunch napkin. But they don't really understand how it feels to be a CPA who has no training in business development and is being asked (or required) to embark on such an effort. The most successful marketers I know can sense and address the emotions involved in helping professionals and firms change and grow.

One final thought: Don't assume that anybody with a liberal arts degree and a great smile can be a successful marketer. Treat the hiring process with the same seriousness you would for a CPA or lawyer, and you are far more likely to make the right choice for the long term.

Melinda Guillemette is a marketing consultant based in Corrales, New Mexico. She can be contacted at mguillemette@comcast.net or 505.263.9460. The preceding article is from her company newsletter "Mission Accomplished" and is reprinted with permission.

Technical Practice Aid Issued on Reporting on Medicaid/Medicare Cost Reports

The AICPA has issued TIS 9110.15, a technical practice aid regarding reporting on Medicaid/Medicare cost reports. Members are encouraged to incorporate the guidance as soon as practicable. The practice aid can be found at http://www.aicpa.org/download/members/div/auditstd/reporting_on_medicare.pdf. Inquiries on specific audit or accounting problems can be directed to the free AICPA Technical Hotline which can be reached at (888) 777-7077.

Results of the 2004 Annual FASAC Survey

Financial Accounting Standards Advisory Council's (FASAC's) annual survey on the priorities of the FASB provides valuable perspectives and observations about the Board's process and direction. The 2004 survey asked Council members, Board members, and other interested constituents to provide their views about the FASB's priorities, future financial reporting issues, international convergence, differential accounting standards for certain entities, and the priority of a codification of U.S. GAAP. Key observations and conclusions from the responses to the 2004 survey are:

- For the third consecutive year, revenue recognition topped the list of issues that Council members believe should be the Board's priority.
- FASAC members believe that *revenue recognition, fair value, and financial performance reporting* will occupy the Board's attention well into the future. Other future financial reporting issues may arise in the areas of accounting for employee benefits and off-balance-sheet transactions.
- FASAC members generally would not automatically assign a higher priority to projects that provide international convergence opportunities. Nor do they believe that the Board should always add a project to its agenda because the IASB does.
- Most FASAC members do not believe that the Board should issue differential standards for certain entities. However, many

support the Board's exploring differences in disclosures and transition periods on a case-by-case basis.

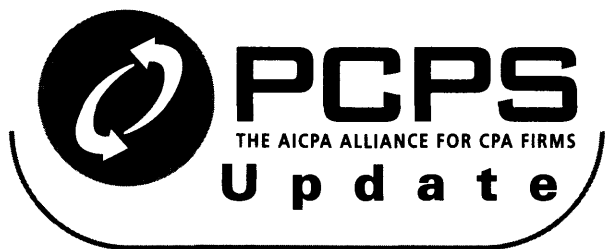
- Most FASAC members support the Board's efforts to create a codification of U.S. GAAP. Some encouraged the Board, however, to not let the work on the codification affect the progress on other important projects.

Twenty-eight current Council members, 7 Board members, and 6 other constituents responded to the survey.

The results of the survey are available on the FASB Web site at <http://www.fasb.org/fasac/results2004.pdf> in a 126 page pdf document.

FYI

PCPS, an alliance of the AICPA, represents more than 6,000 local and regional CPA firms. The goal of PCPS is to provide member firms with up-to-date information, advocacy, and solutions to challenges facing their firms and the profession. Please call 1-800-CPA-FIRM for more information.



Critical Information for CPA Firms

PCPS is here to help you succeed. How? We look at resources and regulations and consider how they will affect our members—CPA firms. We bring you up-to-date tools and information that shape your practice today and will affect your business in the future.

What can you do now to get ahead of the game? Here are the best resources, sites, information, and events available for CPA firms today. Take advantage of them. Tell us what you need. We're here to help.

AICPA Presents Leadership Conference for Firm Practitioners

Need to step back from your practice and plan for the future? It's not too late to register for the AICPA's "Accounting Firm Leadership" conference. Seize the opportunity to interact with the executive management teams of nationally ranked top 200 accounting firms and gain practical knowledge on how to help expand your firm's services and grow profits. Topics covered include how to:

- Tackle the problems you face in your practice every day.
- Reward and compensate leadership.
- Develop future firm management.
- Grow, using mergers and acquisitions.

The conference will be held in Orlando, FL, November 15 - 16, 2004. For more information and to register,

go to: <https://www.cpa2biz.com/CS2000/Products/CPA2BIZ/Accounting+Firm+Leadership+Workshop.htm>

PCPS/TSCPA National MAP Survey - How to Get Your Results and Use Them to Build Your Practice

If yours is one of the 2,478 firms that responded to this year's National Management of an Accounting Practice (MAP) Survey, you should have already received an e-mail explaining how to obtain your customized results report. This report provides you with detailed benchmarking information regarding salaries, billable hours, service offerings, and expenses from thousands of firms across the United States and allows you to compare data tailored to your firm size, specialty, and region.

If you didn't get a chance to participate in this year's survey, you will still be able to review and analyze the national results, available on www.pcps.org later in November. New this year, the report will also include detailed commentary on CPA firm best practices and big picture take-aways from the survey results.

All survey results are available for FREE to PCPS members. Nonmembers can join PCPS for \$35 per CPA in the firm (up to a maximum of \$700) to take advantage of this member benefit. Alternatively, non-PCPS members can purchase data reports for \$300 with a \$100 discount to respondents and an additional \$100 discount for AICPA members.

Fair Labor Standards Act FAQs Available on PCPS Web Site

On August 23, the "FairPay Overtime Initiative" was ratified. The objective of this initiative was to clarify and simplify federal overtime pay requirements under the Fair Labor Standards Act (FLSA).

For CPA firms unsure of how this initiative will affect their practices or their clients' businesses, PCPS provides an in-depth guide in the form of

Questions and Answers. To access this page, go to www.pcps.org.

Authoritative Standards for Auditors of Non-Issuers Available Free Online

Firms that prepare and issue audit reports for nonissuers can now access the original auditing pronouncements and their corresponding codification all in one place and for free. Divided into three sets of standards, namely, auditing, attestation, and quality control, pronouncement titles are searchable so you can find critical information easily and efficiently.

Visit http://www.aicpa.org/members/div/auditstd/Auth_Lit_for_NonIssuers.htm to begin your search.

Work With Banks? The Check 21 Act Became Effective October 28

Recently, two members of PCPS's Technical Issues Committee conducted an informal survey on how banker clients are planning to react to the Check Clearing for the 21st Century (Check 21) Act. This act will enable banks to use substitutes for original checks. The survey found that many banks plan to offer their customers paper images of cleared checks, while others will offer access to checks in electronic format, online or via CD-Rom. Several banks have not yet decided on a fee structure; however, some are charging per-check or monthly fees for this service.

For more information on the act, go to: <http://www.fdic.gov/news/news/financial/2004/fil5404.html>.

ARSC's Revised Representation Letter for Review Engagements

ARSC has issued a revised illustrative representation letter for review engagements, which clarifies a number of issues. It can be found at http://www.aicpa.org/members/div/auditstd/technic_arsc.asp

Practitioners may find it useful to compare their current review engagement letters with this new sample letter, specifically with regard to dating,

use of certain language in the opening paragraph, language around representations required by SSARS No. 10, *Performance of Review Engagements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100), on fraud and the client's acceptance of proposed adjusting journal entries, if any.

An issues paper on the AICPA Web site provides additional guidance on Analytical Procedures in a Review Engagement at <http://www.aicpa.org/pubs/tpcpa/july2004/issues.htm>.

New Guidance for Interpretation 101-3, Nonattest Services

As of December 31, 2004, practitioners will be required to document in writing the understanding established with the client under General Requirement No. 3 of Interpretation 101-3, Nonattest Services. (The Interpretation's other requirements remain effective as of December 31, 2003.) TIC and PCPS have urged the PEEC to offer more guidance on the competency assessment requirement and other aspects of this interpretation. For more information, go to http://www.aicpa.org/members/div/ethics/intr_101-3.htm.

For firms seeking clarification on how to comply with the revised Interpretation 101-3, new practical guidance in this important area is being continually updated with an ongoing series of Q&As posted to the AICPA Web site. These documents address issues such as:

- Write-up and bookkeeping services and reconciliations
- Recurring journal entries and adjustments to the financial statements
- Tax services for attest clients
- Assessing client competency
- Information technology services
- The mechanics of implementation

To download a copy of the Q&A, visit http://www.aicpa.org/members/div/ethics/nonattest_q_a.pdf.

If you have additional questions that are not addressed in this document, you can send them to ethics@aicpa.org. Practitioners interested in this topic should also read the April issue of *The CPA Letter*. Find it at: http://www.aicpa.org/download/cpaltr/2004_04/supps/F-SmlApr.pdf.

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